

REPORT ON EXAMINATION
OF THE
SCOTTISH RE LIFE CORPORATION
AS OF
DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

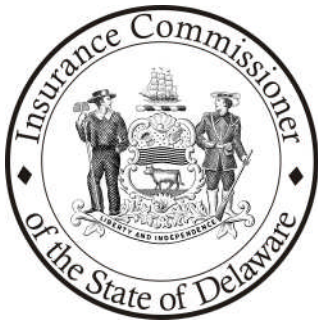
SCOTTISH RE LIFE CORPORATION

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Antoinette Handy

DATE: 29 JUNE 2007



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 29TH DAY OF JUNE 2007.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
SCOTTISH RE LIFE CORPORATION
AS OF
December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 29TH Day of JUNE 2007.

TABLE OF CONTENTS

Salutation	1
Scope of examination.....	2
History.....	3
Capitalization	4
Management and Control.....	4
Holding Company System	6
Management and Service Agreements.....	7
Territory and Plan of Operation	9
Growth of Company.....	10
NAIC Financial Ratios.....	10
Reinsurance	11
Accounts and Records.....	12
Financial Statements	12
Notes to Financial Statements.....	19
(Note 1) Amounts recoverable from reinsurers	19
(Note 2) Other amounts receivable under reinsurance contracts	19
(Note 3) Aggregate reserve for life contracts.....	20
(Note 4) Aggregate reserve for accident and health contracts	22
(Note 5) Liability for deposit-type contracts	22
(Note 6) Contract claims: Life	23
(Note 7) Contract claims: Accident and health.....	24
(Note 8) Surrender values on canceled contracts.....	25
(Note 9) Funds held under coinsurance	26
Compliance with Prior Examination Recommendations.....	26
Summary of Recommendations	27
Conclusion	28
Subsequent Events	29

April 30, 2007

Honorable Alford W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Virginia Corporation Commission
Bureau of Insurance
1300 East Main Street
Richmond, VA 23219

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06-017, dated May 5, 2006, an examination has been made of the affairs, financial condition and management of

SCOTTISH RE LIFE CORPORATION

hereinafter referred to as "Company or SRLC" incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 13840 Ballantyne Corporate Place, Suite 500, Charlotte, North Carolina 28277.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2000, by the Missouri Department of Insurance. This examination covered the period from January 1, 2001 through December 31, 2005, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems review was performed by the consulting firm of INS Services, Inc.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Fidelity Bond and Other Insurance
Officers', Employees' and Agents' Welfare and Pension plans

This examination did not qualify for zone participation as no direct premiums are written. The examination was made in conjunction with the examination of the Company's parent, Scottish Re (U.S.), Inc.

HISTORY

The Company was incorporated as Frankona American Life Reassurance Corporation on August 9, 1979 under the laws of the State of Missouri and commenced business on October 1, 1979. The Company was purchased by Employers Reinsurance Corporation (ERC), a Missouri Corporation in July 1995 from Frankona Ruckversicherungs-Aktien-Gesellschaft of Munich, Germany. In December 1995, the Company merged with Monogram Reinsurance Corporation, an ERC subsidiary, with the Company becoming the surviving entity. In February 1996, the Company's name was changed to ERC Life Reinsurance Corporation. On August 1, 1999, ERC Life Reinsurance Corporation acquired the reinsurance business of Phoenix Mutual Life Insurance Company. On December 22, 2003, 95% of Company's outstanding capital stock was purchased by Scottish Holdings, Inc., (SHI), a Delaware Corporation. On December 31, 2004, SHI contributed its interest in the Company to Scottish Re (U.S.), Inc., a Delaware company, and a wholly owned subsidiary of SHI. SHI is a wholly owned subsidiary of Scottish Holdings (Barbados), Limited, a Barbados company. Scottish Holdings (Barbados), Limited is a wholly owned subsidiary of Scottish Annuity & Life Insurance Company (Cayman) Ltd., a Cayman Islands company, which is a wholly owned subsidiary of Scottish Re Group Limited, a Cayman Islands company. The remaining 5% of the Company is owned by ERC.

CAPITALIZATION

The Company has 533,000 authorized and issued shares of common stock, with a par value of \$10 per share, outstanding at December 31, 2005. The following changes occurred in the Company's capital and contributed surplus during the exam period:

<u>Year</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Gross Paid-In & Contributed Surplus</u>
Balance December 31, 2000	\$3,080,000	\$1,125,000	\$1,921,695,324
2001			(783,639)
2002			288,803,689
2003	2,250,000	(1,125,000)	(1,125,000)
2004			(2,070,103,025)
2005			(7,256,000)
Total change	2,250,000	(1,125,000)	(1,790,463,975)
Balance December 31, 2005	\$5,330,000	\$-0-	\$131,231,349

On December 31, 2005, the Company had \$5,330,000 in capital and \$131,231,349 in contributed surplus.

MANAGEMENT AND CONTROL

The Company's bylaws were originally adopted January 20, 1977, amended October 8, 1982, amended during the period of this examination on December 8, 2003 and June 21, 2004. The bylaws state that the business and affairs shall be managed by a Board of Directors consisting of the number of directors permitted by statute with the number determined by

resolution of the Board of Directors or by the stockholders at the annual meeting. It is not necessary for the Directors to be stockholders.

The following constitute the Board of Directors as of December 31, 2005:

<u>Name</u>	<u>Principal Occupation</u>
Michael Cecil French	Chairman and Director of Scottish Re Group Limited
Scott E. Willkomm	President and Chief Executive Officer of Scottish Re Group Limited
Hazel Rollins O'Leary	Director of Scottish Re Group Limited
Oscar Ray Scofield	President and Chief Executive Officer of the Company
Seth W. Vance	President of Scottish Holdings, Inc.
Clifford James Wagner	EVP and Chief Actuary of Scottish Re Group Limited

The bylaws, as amended, state that the Officers of the Company shall include a President, a Secretary and a Treasurer. The Board of Directors may also choose senior vice presidents, vice presidents and one or more assistant secretaries and assistant treasurers. The same person may hold any number of offices.

The officers serving at December 31, 2005 were as follows:

Oscar Ray Scofield	President and Chief Executive Officer
Nathan V. Gemmiti	Senior Vice President, Chief Legal Counsel and Secretary
Paul Turner	Senior Vice President, Chief Risk Officer
Robert H. Miles	Senior Vice President and Chief Financial Officer
Donna T. Mosely	Senior Vice President and Treasurer
Richard Pollard	Senior Vice President and Appointed Actuary
A.P. Robinson, Jr.	Vice President, Controller and Assistant Treasurer
J.B. Fullen	Vice President, Finance, and Assistant Treasurer
Amy E. Livezey	Assistant Secretary

The board of directors' minutes did not include approval of investment transactions in accordance with Section 1304 of the Delaware Insurance Code (18 Del. C. § 1304). The Company did not provide all notifications to the Delaware Insurance Commissioner for changes in personnel among its directors and principal officers as specified in Section 4919 of the Delaware Insurance Code (18 Del. C. § 4919).

It is recommended that the Company comply with the provisions of Sections 1304 and 4919 of the Delaware Insurance Code regarding approval of investment transactions and notification of changes to the Delaware Insurance Commissioner.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The following is an organizational listing that reflects the identities and interrelationships between the parent, the Delaware companies and subsidiaries as of December 31, 2005:

Scottish Re Group Limited (Cayman)
Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Scottish Holdings (Barbados) Ltd.
Scottish Holdings, Inc. (US-Delaware)
Scottish Re (U.S.), Inc. (US-Delaware)
Scottish Re Life Corporation (US-Delaware)
Orkney Holdings, LLC (US-Delaware)
Orkney Re, Inc. (US-South Carolina)

Please refer to Part 1 of Schedule Y in the 2005 Annual Statement for the complete organizational chart that reflects a complete list of companies that comprise the Scottish Re Group Limited holding company.

Copies of the Insurance Holding Company System annual registration statements, Forms B, C and D, were reviewed during the period under examination. The forms filed with the Delaware Insurance Department indicated the Company was not in compliance with the requirements of Section 5004(a) (3) of the Delaware Insurance Code (18 Del. C. § 5004) with regards to filing all affiliated transactions with the Delaware Insurance Commissioner and the requirements of Section 5005(a) (2) d. of the Delaware Insurance Code (18 Del. C. § 5005) with regards to submitting affiliated agreements to the Delaware Insurance Commissioner for approval.

It is recommended that the Company comply with the applicable provisions of Sections 5004 and 5005 of the Delaware Insurance Code, regarding affiliated transactions and agreements required to be filed with the Delaware Insurance Commissioner.

Dividends

The following dividends were paid during the period covered by this examination:

<u>Year</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Amount	\$ -0-	\$1,800,000,000	\$619,409,682	\$-0-	\$-0-

MANAGEMENT AND SERVICE AGREEMENTS

Affiliated Agreements

The following affiliated agreements were identified as being in effect as of December 31, 2005:

(1) **NET WORTH MAINTENANCE AGREEMENT** as of January 1, 2004, between Scottish Re Group Limited (SRGL), Scottish Annuity & Life Insurance Company (Cayman) Ltd. (SALIC) and the Company. SALIC will cause the Company to have at all times capital and surplus necessary to maintain a ratio of at least 175% of Total Adjusted Capital to Company Action

Level RBC. If Scottish Annuity is unable to meet its obligations under this agreement, SRGL will assume the obligations and duties of SALIC.

(2) **MANAGEMENT SERVICES AGREEMENT** as of January 1, 2004, between SRGL and the Company. Pursuant to this agreement, SRGL will provide management and corporate services including investment management, management of group structure, maintenance of financial strength rating, oversight of solvency, capital raising, bank negotiations and affiliations, management oversight and business planning.

(3) **SUPPORT SERVICES AGREEMENT** as of January 1, 2004, between the Company Scottish Re (U.S.), Inc. (SRUS). Pursuant to this agreement, SRUS will provide professional and support services to the Company including information technology, legal, administrative, underwriting, treaty administration, actuarial and finance support services.

(4) **ASSET MANAGEMENT SERVICES FEE AGREEMENT** as of January 1, 2004, between SRGL and the Company. Pursuant to the agreement, SRGL will provide asset maintenance services including outsourcing the day to day management of the assets and related accounting to appropriate third party investment managers, developing investment strategy, providing asset yield assumptions to price annuity reinsurance transactions, managing consequences of investment decisions, evaluating performance of third party investment managers and analyzing investment results and risk exposures in an asset-liability context.

(5) **TAX ALLOCATION AGREEMENT** as of February 11, 2005 among the Company, Scottish Re Life (Bermuda) Limited, SRUS, Orkney Re, Inc., and Orkney Holdings, LLC.

Other Agreements

The Company has an Investment Management Agreement as of June 28, 2002 through its relationship as a indirect subsidiary of Scottish Annuity & Life Insurance Company (Cayman) Ltd. with General Re – New England Asset Management, Inc. (NEAM). NEAM provides investment management services, plus Schedule D accounting services, plus manages the Company's Schedule S trust agreement deposits for its ceding reinsurance program with various unauthorized reinsurers.

The Company also has custodial account agreements with Comerica Bank, Wilmington Trust and various banks to manage invested assets under various statutory deposits and trust agreements.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed in 26 states as of December 31, 2005 but does not write direct business. The Company is an accredited reinsurer in 25 jurisdictions.

Plan of Operation:

The Company's block of business was acquired from Employers Reinsurance Corporation ("ERC") in late 2003. The legacy ERC business consists of two blocks of business, Phoenix and Frankona, which consist of approximately 80% and 20% of the business, respectively. (The Phoenix and Frankona blocks of business were acquired by ERC.) The blocks of business, consisting of Traditional Solutions and Financial Solutions business, primarily are in run-off and there is no new business. In the Traditional Solutions business, the Company reinsures the mortality risk on life insurance policies written by primary insurers. This business is often referred to as traditional life reinsurance. The Company assumed this business predominately on an automatic basis with respect to newly written life insurance policies. This means that the Company automatically reinsures all policies written by a ceding company that met the underwriting criteria specified in the treaty with the ceding company.

In respect of the Financial Solutions business, the Company assumed financial solutions treaties that improve the financial position of clients by increasing their capital availability and statutory surplus. These solutions include contracts under which the Company assumed the investment and persistency risks of then existing blocks of business. The products reinsured include annuities and annuity-type products and cash value life insurance.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums, Annuity Considerations and Deposits</u>	<u>Net Income</u>
2005	\$614,659,509	\$74,332,343	\$295,470,461	\$8,757,191
2004	628,439,619	68,587,305	179,405,176	(68,516,986)
2003	825,377,732	143,817,349	406,056,916	(468,741,198)
2002	1,543,244,886	697,829,483	527,730,122	(58,867,935)
2001	2,852,779,854	1,930,351,258	628,365,054	216,895,700
2000	\$2,891,185,187	\$1,844,973,608	\$583,589,125	\$213,271,825

The Company has assumed no new business, with currently assumed business in run-off, since the Company was acquired in December 2003.

NAIC FINANCIAL RATIOS

The Company's 2005 NAIC Financial Ratios from the Insurance Regulatory Information System (IRIS Ratios) were reviewed and it was noted that the Company received the following three unusual values out of the twelve ratios reviewed:

- Adequacy of Investment Income
- Change in Premium
- Change in Reserving Ratio

The adequacy of investment income is low although book yield increased to 5.21% in 2005 compared to 4.88% in 2004. Premium and annuity considerations increased by 354% from a negative \$44,941,444 in 2004 to a positive \$114,286,438 in 2005. The negative premium in 2004 was caused by a recapture (\$172.5 million) of a significant treaty during the year. There was an unusual IRIS value for the reserving ratio for ordinary life insurance reserves due to a

\$40,820,990 decrease in those reserves that was caused by the recapture of another treaty in 2005.

REINSURANCE

The Company is a professional reinsurer and did not write any direct business during the year 2005. The majority of its business is self-administered (SA) by the ceding company, with the remainder being administered by the Company (called Individual Cession Business, or ICB). For the SA business, treaties are set up in the policy administration system, for premium recording and claims processing. The SA business is a closed block of insurance with no new treaties added during 2005, with the exception of new conversion information obtained from existing business. Rate tables are not required for the SA business since monthly premium billing is not required; however, rate tables are used for ICB treaties as monthly bills are generated and mailed to the ceding company.

Assumed

The Company had ten (10) new treaties during the examination period. Eight treaties were effective during the year 2001, two were effective in 2002. There were no new treaties for the years 2003-2005. Life and Annuity reserves assumed as of December 31, 2005 amounted to \$613,852,285.

Ceded

The Company entered into four (4) treaties in 2001 and one (1) treaty in 2005. Reserve credit taken as of December 31, 2005 amounted to \$298,330,170 of which \$176,152,873 or 59% was retroceded to the following unauthorized reinsurers:

Affiliates	\$ 30,046,061
Non-Affiliates	<u>146,152,873</u>
Total	<u>\$176,198,934</u>

All reserves retroceded to unauthorized reinsurers were secured by letters of credit and miscellaneous credit balances.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. In general, it has been determined that the Company has sufficient level of controls in place for all of the above areas. Due to personnel turnover during the exam period, accounts have not received timely reconciliation. The Company also established a minimum dollar value in determining which accounts were reconciled during the exam period.

It is recommended that the Company implement appropriate procedures to assure the amounts reconciled to the Balance Sheet reconciliation are cleared in a timely manner.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Examination and Surplus Changes

It should be noted that the various schedules and exhibits might not add to the totals shown due to rounding. With the exception of the items reviewed by the consulting actuarial firm, INS Consultants, Inc. (INS), write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the “exception basis.” As such, only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted. The financial statements as presented reflect the statutory financial statements as determined by this examination as of December 31, 2005.

Assets
December 31, 2005

	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 299,165,576	\$ -	\$ 299,165,576	
Preferred stocks	50,000,000	-	50,000,000	
Cash and short-term investments	43,523,874	-	43,523,874	
Contract loans	19,034,924	-	19,034,924	
Receivables for securities	8,453	-	8,453	
Investment income due and accrued	4,001,984	-	4,001,984	
Uncollected premiums and agents, balances in course of collection	63,993,045	-	63,993,045	
Amounts recoverable from reinsurers	36,164,057		36,164,057	1
Funds held by or deposited with reinsured companies	7,265,058	-	7,265,058	
Other amounts receivable under reinsurance contracts	85,937,194	-	85,937,194	2
Net deferred tax asset	30,857,967	22,823,470	8,034,497	
EDP equipment and software	1,647,805	1,647,805	-	
Other assets nonadmitted	- 393,631	- 393,631	-	
Totals	<u>\$ 641,993,568</u>	<u>\$ 24,864,906</u>	<u>\$ 617,128,662</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Liabilities, Surplus and Other Funds
December 31, 2005

		<u>Note</u>
Aggregate reserve for life contracts	\$ 315,522,106	3
Aggregate reserve for accident and health contracts	56,568	4
Liability for deposit-type contracts	5,845,252	5
Contract claims: life	66,918,364	6
Contract claims: accident and health	1,883,923	7
Premiums and annuity considerations for life and accident and health contracts received in advance	33,966	
Surrender values on canceled contracts	2,897,495	8
Provision for experience rating refunds	73,200	
Other amounts payable on reinsurance assumed and ceded	89,510,424	
Interest maintenance reserve	26,719	
Commissions and expense allowances payable on reinsurance assumed	7,735,262	
General expenses due or accrued	885,985	
Taxes, licenses and fees due or accrued	(1,004,321)	
Current federal income taxes	77,624	
Remittances and items not allocated	2,438,211	
Asset valuation reserve	654,627	
Reinsurance in unauthorized companies	27,961,455	
Payable to parent, subsidiaries and affiliates	14,159,898	
Funds held under coinsurance	<u>7,265,057</u>	9
 Total Liabilities	 \$542,941,815	
 Common capital stock	 5,330,000	
Deferred gain on reinsurance	9,901,325	
Gross paid in and contributed surplus	131,231,349	
Unassigned funds (surplus)	<u>(72,275,827)</u>	
 Total Capital and Surplus	 <u>\$74,186,847</u>	
 Total Liabilities, Surplus and Other Funds	 <u>\$ 617,128,662</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Summary of Operations
December 31, 2005

Income:

Note

Premiums earned	\$ 114,286,437
Net investment income earned	19,786,310
Amortization of interest maintenance reserve	1,355,643
Commissions and expense allowances on reinsurance ceded	4,293,792
Interest on amounts withheld on reinsurance	1,432,567
Reserve adjustment on reinsurance assumed	10,057,673
Change in experience rating refund	9,641,657
Miscellaneous income	<u>(82,817)</u>

Total income \$ 160,771,262

Expenses:

Death benefits	\$145,683,069
Annuity benefits	2,643,760
Disability benefits & benefits under accident & health contracts	597,328
Surrender benefits & withdrawals for life contracts	10,614,121
Increase in aggregate reserves for life & accident & health contracts	(40,820,990)
Commissions & expense allowances on reinsurance assumed	25,488,571
General insurance expenses	10,398,895
Insurance taxes, licenses and fees	<u>(1,750,012)</u>

Total expenses \$152,854,742

Net income before federal income taxes incurred	7,916,520
Federal income taxes incurred	(\$840,671)

Net income \$ 8,757,191

Capital and Surplus Account
December 31, 2004 to December 31, 2005

Note

Surplus as regards policyholders, December 31, 2004	\$68,587,305	
Net Income	<u>8,757,191</u>	
<u>Additions:</u>		
Change in nonadmitted assets	\$6,910,874	
Change in surplus as a result of reinsurance	<u>9,901,325</u>	
Total additions	<u>\$16,812,199</u>	
<u>Deductions:</u>		
Change in net deferred income tax	\$(10,730,465)	
Change in liability for reinsurance in unauthorized companies	(8,722,963)	
Change in asset valuation reserve	(370,924)	
Change in surplus as a result of exam adjustments	(145,496)	1, 2, 9
Total deductions	<u>(\$19,969,848)</u>	
Net change in surplus as regards policyholders for the year	<u>\$5,599,542</u>	
Surplus as regards policyholders, December 31, 2005	<u>\$74,186,847</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Examination and Surplus Changes

<u>Assets</u>	Per <u>Examination</u>	Per <u>Company</u>	Surplus Increase (Decrease)	<u>Note</u>
Other amounts receivable under reinsurance	\$85,937,194	\$83,468,041	\$2,469,153	2
<u>Liabilities, Surplus and Other Funds</u>				
Funds held under coinsurance	4,650,408	7,265,057	(2,614,649)	9
Net Change in Surplus per Examination			(145,496)	
Surplus per Company			74,332,343	
Surplus per Examination			<u>\$ 74,186,847</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Amounts recoverable from reinsurers\$28,105,757

A review was performed of the recoverable for the period ending December 31, 2005, and has been accepted as reported by the company.

(Note 2) Other amounts receivable under reinsurance contracts.....\$85,937,497

This asset is \$2,469,153 more than the Company reflected in its 2005 Annual Statement. The difference is due to reclassifying a debit balance of \$2,614,649 from the liability, Funds Held Under Coinsurance and reducing one ledger account by \$145,496 as the detail supporting the asset was less than the ledger balance. The following schedule summarizes the examination adjustment:

<u>Description</u>	<u>Adjustment</u>
Reclassified from liability	\$2,614,649
Suspense-Retro recoveries	<u>(145,496)</u>
Total	<u>\$2,469,153</u>

(Note 3) Aggregate reserve for life contracts.....\$315,522,106

This liability is reported on Page 3, Line 1 and in Exhibit 5 of the 2005 Annual Statement. The reserve breakdown in Exhibit 5 by type of benefit is as follows:

Life Insurance	\$ 538,706,494
Annuities	53,672,838
Supplementary Contracts with Life Contingencies	1,089,549
Accidental Death Benefits	276,504
Disability – Active Lives	733,792
Disability – Disabled Lives	4,242,520
Miscellaneous Reserves	<u>15,130,581</u>
Total (Gross)	\$ 613,852,278
Reinsurance Retroceded	<u>298,330,172</u>
Total (Net)	<u>\$ 315,522,106</u>

As part of the valuation certificate process, SRLC provided supporting work papers and reserve certification sheets from the ceding company in support of most of these reserves. INS Consultants, Inc. (INS), consulting actuarial firm traced the reserves from the supporting work papers and reserve certification sheets to Exhibit 5 of the December 31, 2005 Annual Statement. No discrepancies were noted.

All of the Exhibit 5 reserves are calculated by the ceding companies. Sampling techniques were not used as a part of this examination. For this examination, reliance was placed on the certification of the ceding companies for the adequacy of the reserves. SRLC obtained reserve certification sheets from most of the ceding companies.

INS recommends that SRLC obtain reserve certification sheets from all ceding companies.

INS reviewed the American Founders Life Insurance Company reinsurance (AFL) assumed treaty which accounts for 25% of the Exhibit 5 gross reserves. SRLC assumes \$150.8 million of Exhibit 5 reserves from AFL which consists of ordinary life (\$26.6 million), universal life (\$69.4 million), deferred annuities (\$53.7 million), and supplementary contracts not involving life contingencies (\$1.1 million). INS also reviewed the Scottish Re (Dublin) Limited reinsurance retroceded treaty. This was the only treaty with an effective date during the examination period. INS' review indicated that the reinsurance agreements transfer risk as required by the Delaware Insurance Code Regulation 1002.

INS reconciled the Exhibit 5 gross reserve total of \$613,852,278 to the Schedule S, Part 1, Section 1 total of \$613,852,285 (difference due to rounding) in the December 31, 2005 Annual Statement. INS also reconciled the Exhibit 5 retroceded reserve total of \$298,330,172 to the Schedule S, Part 3, Section 1 total of \$298,330,170 (difference due to rounding) in the December 31, 2005 Annual Statement. No discrepancies were noted. SRLC provided work papers supporting the retroceded reserves. INS reviewed these work papers and reconciled them to the retroceded reserve total.

A trend analysis of the reserves indicated a reasonable pattern over the examination period.

The primary risks associated with Exhibit 5 reserves are adverse mortality, asset default, interest rate volatility and mismatching of asset and liability cash flows. These risks were further reviewed by evaluating the 2005 Actuarial Opinion Memorandum (AOM). Since all the Exhibit 5 reserves are calculated by the ceding companies, INS placed a heavy emphasis on the AOM review. Based on our analysis of the 2005 AOM, INS concluded that additional actuarial reserves were not required as of December 31, 2005.

Based on the previous discussion and analysis, INS concluded that the aggregate reserve for life policies and contracts as reported by SRLC on Page 3, Line 1 and in Exhibit 5 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 4) Aggregate reserve for accident and health contracts.....\$56,568

The reserve is an unearned premium reserve for accident and health business assumed from one reinsurer. During the examination, INS reviewed the supporting work papers and found them to be in order. A trend analysis of this reserve indicated a reasonable pattern over the examination period. Based on materiality, no additional testing was deemed necessary.

Based on the previous discussion and analysis, INS concluded that the aggregate reserve for accident and health contracts as reported by SRLC on Page 3, Line 2 and in Exhibit 6 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 5) Liability for deposit-type contracts.....\$5,845,252

This reserve is for supplementary contracts not involving life contingencies (\$1,504,801) and dividend accumulations (\$4,304,451) assumed from AFL. During the examination, INS reviewed the supporting work papers and found them to be in order. INS performed a trend analysis to analyze the reserves. The trend analysis showed a reasonable pattern over the examination period. INS was unable to locate this reserve in the appropriate section of Schedule S.

INS recommends that SRLC report this reserve in the appropriate section of Schedule S.

Based on the previous discussion and analysis, INS concluded that the liability for deposit-type contracts as reported by SRLC on Page 3, Line 3 and in Exhibit 7 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 6) Contract claims: Life.....\$66,918,364

This liability is reported on Page 3, Line 4.1 and in Exhibit 8 of the 2005 Annual Statement.

The liability breakdown in Exhibit 8 is as follows:

Claims in Course of Settlement assumed	\$ 72,384,885
Claims in Course of Settlement retroceded	<u>34,025,296</u>
Total (Net)	\$ 38,349,589
IBNR assumed	\$ 64,719,404
IBNR retroceded	<u>36,150,629</u>
Total (Net)	\$ 28,568,775
Grand Total (Net)	<u>\$ 66,918,364</u>

During the examination, the examiners reviewed the claims in course of settlement (ICOS) liability and found it reasonable. INS reviewed the supporting work papers for the IBNR and found them to be in order. The IBNR is for group life insurance assumed from various ceding companies.

SRLC established the IBNR liability based on an average expected annual claim per \$1,000 of face amount inforce and an assumed lag period based on ceding company experience.

INS reviewed the methodology used by SRLC to calculate the IBNR and has determined that it is reasonable. On a gross basis the IBNR liability as of December 31, 2005 was \$64.7 million. SRLC provided a list of claims that were incurred before January 1, 2006 and paid in 2006. These claims totaled \$62.0 million. Therefore, the IBNR appears sufficient by \$2.7 million.

Based on the above discussion and analysis, INS concluded that the Contract Claims: Life liability as reported by SRLC on Page 3, Line 4.1 and in Exhibit 8, Part 1 of the December 31, 2005 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(Note 7) Contract claims: Accident and health\$1,883,923

This liability is reported on Page 3, Line 4.2 and in Exhibit 8 of the 2005 Annual Statement.

The liability breakdown in Exhibit 8 is as follows:

ICOS assumed	\$ 57,699,248
ICOS retroceded	<u>55,815,325</u>
Total	<u>\$ 1,883,923</u>

During the examination, the examiners reviewed the ICOS liability and found it reasonable. Based on the examiner's review, the ICOS liability was accepted as stated.

Based on the examiner's review, INS concluded that Contract Claims: accident and health liability as reported by SRLC on Page 3, Line 4.2 and in Exhibit 8, Part 1 of the December 31, 2005 Annual Statement is fairly stated. It has been accepted for the purpose of this report.

(Note 8) Surrender values on canceled contracts\$2,897,495

This liability is for individual policy surrender values due to the ceding reinsurer which have not been paid as December 31, 2005. During the examination, INS reviewed the supporting work papers and found them to be in order. The liability is solely from the reinsurance treaty with AFL. SRLC provided a spreadsheet showing the calculation of the balance in the treaty. INS reviewed the calculation and found it was reasonable.

Based on the above discussion and analysis, INS concluded that surrender values on canceled contracts liability as reported by SRLC on Page 3, Line 9.1 of the December 31, 2005 Annual Statement is fairly stated. It has been accepted for the purpose of this report.

Overview

As part of the examination of SRLC, INS performed a review of the asset adequacy analysis within the AOMs for calendar years 2004 and 2005.

Findings and Conclusion

Based on the asset adequacy testing (AAT) performed as part of the 2005 AOM, SRLC's appointed actuary concluded that additional actuarial reserves were not required as of December 31, 2005. Based on our review of the 2005 AOM, INS concluded additional actuarial reserves were not required.

INS recommends that future AOMs:

- **Include a discussion of the risks associated with all business segments.**

- **Include a determination of the amount of additional actuarial reserves required in order to eliminate all negative book value surplus results.**
- **Include a more thorough presentation of the procedures and results for methods other than CFT analysis.**

INS also suggests that future AOMs include:

- A tabular comparison of liabilities at the AAT date and year-end and an assertion that there has not been a material change in the risk characteristics of the liabilities between the two dates.
- A discussion of the quality and nature of assets supporting all actuarial liabilities – not just those subjected to cash flow testing analysis.
- Interim projected surplus results for all scenarios tested (including sensitivity tests).
- A discussion of specific asset adequacy analysis such that the aggregate of reserves or actuarial liabilities excluded from analysis does not exceed 5% of statutory surplus.

(Note 9) Funds held under coinsurance.....\$7,265,057

This liability is \$2,614,649 more than the Company reflected in its 2005 Annual Statement. The increase is due to reclassification of a debit balance of \$2,614,649 in the account to the asset, Other Amounts Receivable Under Reinsurance Contracts. The remaining balance of \$7,265,055 reported as Funds Held on accident and health business ceded was determined to be an accounting transaction that offsets the amounts reported on Schedule S Part 1, Section 2 as the Company assumes and retrocedes the same business. No funds were exchanged.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed in the prior examination report. It was determined that the prior exam recommendations were not

applicable to the current examination. The Company is under new ownership and management and has changed its State of domicile from Missouri to Delaware since the prior exam.

It was noted that there were four recommendations made in the prior examination report.

SUMMARY OF RECOMMENDATIONS

Management and Control

It is recommended that the Company comply with the provisions of Sections 1304 and 4919 of the Delaware Insurance Code regarding approval of investment transactions and notification of changes to the Delaware Insurance Commissioner.

(Page 6)

Holding Company System

It is recommended that the Company comply with the applicable provisions of Sections 5004 and 5005 of the Delaware Insurance Code, regarding affiliated transactions and agreements required to be filed with the Delaware Insurance Commissioner. (Page 7)

Accounts and Records

It is recommended that the Company implement appropriate procedures to assure the amounts reconciled to the Balance Sheet reconciliation are cleared in a timely manner. (Page 12)

Aggregate Reserve for Life Contracts

INS recommends that SRLC obtain reserve certification sheet from all ceding companies. (Page 20)

Liability for deposit-type contracts

It is recommended that SRLC report this reserve in the appropriate section of Schedule S. (Page 22)

Findings and Conclusion

It is recommended that future AOMs include a discussion of the risks associated with all business segments, include a determination of the amount of additional actuarial reserves required in order to eliminate all negative book value surplus results and include a more thorough presentation of the procedures and results for methods other than CFT analysis. (Page 25)

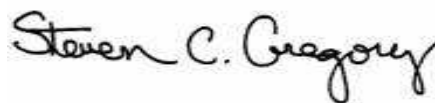
CONCLUSION

The following schedule reflects the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2000</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>
Assets	\$2,891,185,187	\$617,128,662	\$(2,274,056,525)
Liabilities	\$1,046,211,578	\$542,941,815	\$ (503,269,763)
Capital and Surplus	\$1,844,973,608	\$ 74,186,847	\$(1,770,786,761)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Steven C. Gregory, CFE, FLMI, AIE
Examiner In-Charge
State of Delaware

SUBSEQUENT EVENTS

The Company had its ratings downgraded by AM Best Company during 2006. The rating decline may be reversed if the Company's ultimate parent Scottish Re Group Limited can successfully complete a securities purchase agreement entered into on November 26, 2006 with investment partners in 2007.